

Service Date: December 21, 1982

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of)	
Western Water Company for Authority)	DOCKET NO. 82.4.24
to Increase Rates and Charges for Water)	
Service and to Modify Rules and)	ORDER NO. 4911a
Regulations for its Missoula, Montana)	
Service Area.)	

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APPEARANCES

FOR THE APPLICANT:

DENNIS R. LOPACH, Attorney at Law, Hjort and Lopach, P.O. Box 514, Helena,
Montana 59624.

FOR THE INTERVENORS:

JAMES C. PAINE, Montana Consumer Counsel, 34 West Sixth Avenue, Helena,
Montana 59620.

FOR THE COMMISSION:

EILEEN E. SHORE, Chief Legal Counsel, 1227 11th Avenue, Helena, Montana 59620.

BEFORE:

JOHN DRISCOLL, Commissioner
HOWARD ELLIS, Commissioner
THOMAS J. SCHNEIDER, Commissioner

FINDINGS OF FACT

1. On April 13, 1982, Western Water Company (Applicant or WWC) filed an application with this Commission for authority to increase rates and charges for water service to its customers in Missoula, Montana. The Applicant requested an average increase of 58.6% which constitutes an increase of approximately \$47,421 in annual revenues. The Applicant also requested modification of certain rules and regulations applicable to its utility operations.

2. On April 27, 1982, WWC filed an application for an interim increase in rates of 29.32% equaling a revenue increase of approximately \$23,710 or 50% of the proposed permanent increase. The request was denied by the Commission on June 1, 1982, by Order No. 4911 in this docket.

3. On August 5, 1982, pursuant to Notice of Public Hearing, a hearing was held in the City Council Chambers, City Hall, Missoula, Montana. The purpose of the hearing was to consider the merits of the Applicant's proposed water rate adjustment.

4. At the public hearing the Applicant presented the following witnesses:

Leon Spitz, Consulting Engineer
Eric Schindler, Certified Public Accountant
Dennis Curran, Secretary-Treasurer WWC

5. The Montana Consumer Counsel presented the testimony of six public witnesses at the hearing.

6. The year ending December 31, 1981 test year was uncontested and is found by the Commission to be a reasonable period within which to measure the Applicant's utility revenues, expenses and returns for the purpose of determining a fair and reasonable level of rates for water service.

RATE BASE

7. The Applicant, in its application, proposed an average original cost depreciated rate base of \$311,579. The rate base presented by the Applicant represents its investment in two totally disconnected water utilities. One water utility serves the Linda Vista/Valley Vista area and the other serves the Hillview Heights area; there are readily identifiable items in the rate base that are used to provide service to only one area. This suggests that separate rate base determinations may be appropriate for the two service areas to insure that the rates implemented are covering the

actual cost of providing service in the respective service areas. The Commission does not have adequate information available to it at this time, however, to make a determination of the appropriate rate base for each of the service areas.

8. The record developed in this docket raises questions about the accuracy of the rate base presented. The Applicant's financial consultant, Mr. Schindler, stated that the rate base presented was developed from the Applicant's tax records, which had been audited, but was unable to respond to questions relative to reductions in rate base resulting from customer contributions, assets acquired through special improvement districts, etc. The Commission believes that, before it can approve a rate base, it must have information that quantifies the original cost of each asset and all transactions that result in a reduction of that original cost.

9. The accuracy of the rate base presented is further clouded by Mr. Curran's statement that prices for the lots in the Hillview Heights area included the costs for roads, storm drains, water, parks and sewer. Mr. Curran was unable to explain how the costs associated with the water utility were assessed against each individual lot or what costs associated with the water utility construction were included in lot prices. It is not uncommon for a development company, of which the water utility was an operating division prior to its incorporation, to recoup its entire investment in utility plant through the sales price of the lots. Therefore, until the Applicant provides sufficient information to allow the Commission to determine what, if any, portions of the claimed rate base is customer contributed capital the rate base as presented cannot be accepted by the Commission.

10. Based upon the foregoing, the Commission is unable to establish the Applicant's rate base or to allow for a return on rate base.

OPERATING REVENUES

11. The Applicant reduced its test period operating revenues by \$1,255, allegedly, to depict normalized sales to its Missoula, Montana customers. To determine the normalized revenue for its Missoula service area, the Applicant used the actual 1981 revenue generated by its sprinkling charge (\$16,362) and the actual December 1981 revenue generated by domestic sales times 12 months ($\$5,365 \times 12 = \$64,500$.)

12. The Applicant's proposed revenue reduction is totally attributable to reduced revenues being generated by its domestic sales to consumers. The Applicant's use of one month's

domestic sales revenue times 12 to determine normalized revenue for this category is not accepted by the Commission. Since it is typical for a utility to have fluctuations in the number of customers served during any given period, use of a one month period of revenue generation would not result in these fluctuations being accounted for in the normalization process. Use of the actual 1981 revenue generated by this customer class would result in customer fluctuations being considered and would fairly represent normalized sales to this customer class.

13. Because the downward adjustment is rejected, the Commission finds total test period operating revenues to be \$82,117.

OPERATING EXPENSES

14. The test period operating expenses are not a controverted issue in this case. The Applicant utilized the 12 months, ended December 31, 1981, adjusted for known and measurable changes. Total test year expenses of \$72, 886 are accepted by the Commission.

15. The Applicant proposed test period depreciation expense of \$12,531. With the disallowance of rate base, for the reasons set out previously in this order, the Commission must disallow the Applicant's proposed depreciation expense.

16. The Applicant proposed an expense of \$5,911 for Taxes other than Federal Income. With the disallowance of a return on the Applicant's rate base there should be no increase in this expense item above the level experienced by the Applicant in 1981. The Commission finds taxes other than Federal Income to be \$4,249.

17. The Applicant has outstanding debt consisting of a note payable to M. Henry in the amount of \$164,648 carrying an interest rate of 5% and a note payable to W. Curran in the amount of \$43,000 carrying an interest rate of 20%. The Applicant indicates that interest on these notes will be \$14,682. This expense was not challenged by any party participating in this docket and is, therefore, accepted by the Commission. The interest rate on the note payable to W. Curran carries an interest rate very significantly above the current market. Good business practice dictates that the Applicant obtain lower cost debt. This item will be very carefully scrutinized if it is presented in future rate cases.

18. Total deductions from operating revenues are \$91,817.

19. Operating income are (\$9,700):

Operating Revenue	\$82,117
Operating Deductions	<u>91,817</u>
Operating Income (Loss)	\$(9,700)

20. With the Commission's disallowance of a return on the Applicant's rate base, the Commission has placed the Applicant on a cost basis for the Purpose of determining increased rates. The Commission finds that the Applicant has a revenue deficiency in the amount of \$9,700.

SERVICE

21. Six public witnesses testified at the public hearing in this Docket. These witnesses expressed concern over problems with water quality, lack of pressure and water outages in the Linda Vista/Valley Vista service area. Based upon the testimony presented by these witnesses the Commission finds that the service in the Linda Vista/Valley Vista area is inadequate.

22. The Commission is aware that the Applicant is in the process of attempting to upgrade the service received by consumers residing in the Linda Vista/Valley Vista area. The Applicant should be prepared to provide the Commission with alternative service plans, if the improvements currently under construction do not result in adequate service for consumers residing in this area. Until the service problems in this area are resolved the Commission finds that those consumers residing in the Linda Vista/Valley Vista service area should receive no increase in rates.

RATE DESIGN

23. The Applicant in this Docket has proposed a uniform percentage increase be applied to the rates of all customer classifications for purposes of generating the increased revenues authorized in this order. Absent a cost of service study, the Commission believes that a uniform percentage increase in rates to all customer classifications is the most equitable method of implementing the revenue increase authorized herein and, therefore, accepts the Applicant's proposal.

24. The Applicant is authorized to increase all rates and charges by 11.8% rounding to the nearest 0 or 5 ($9,700 \div 82,117 = 11.8\%$.)

MISCELLANEOUS

25. The Applicant proposed a service rule which would authorize it to assess a \$20 reconnection charge under specific circumstances. The proposed rule is reasonable and is accepted by the Commission.

26. The layout of the Applicant's system suggests that the Applicant should conduct a preliminary evaluation to determine if the system is capable of small power production. If the system is capable of small power production, the sale of the electricity would offset portions of the operation and maintenance expense to the benefit of both the company and the consumer.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding.

2. The Commission afforded all parties interested in this proceeding proper notice and an opportunity to participate.

3. The rates approved herein are reasonable, just and proper.

ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

Western Water Company shall file rate schedules which reflect an increase in annual revenues of 59,700 for its Missoula, Montana, water service. The increased revenues shall be generated as provided herein.

Western Water Company is authorized to implement the Reconnection Charge as contained in its application.

A full, true and correct copy of this Order shall be sent forthwith by first-class United States mail to the Applicant and to all other appearances herein.

The rates will be come effective upon Commission approval.

DONE IN OPEN SESSION this 20th day of December, 1982, by a vote of 3 – 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

THOMAS J. SCHNEIDER, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)